

CITY OF EAST CARBON

Annual Financial Report --- June 30, 2005

(With Certified Public Accountant's Report Thereon)

CITY OF EAST CARBON
Table of Contents

Independent Certified Public Accountant's Report	1
Management's Discussion and Analysis	3
Statement of Net Assets	8
Statement of Activities	9
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities	11
Balance Sheet - Government Funds	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Government Funds	13
Statement of Net Assets - Proprietary Funds	14
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	15
Statement of Cash Flows - Proprietary Funds	16
Notes to Financial Statements	17
Required Supplementary Information	36
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund	37
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Special Revenue Fund	38
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	39
Independent Certified Public Accountant's Report on Compliance with State Legal Compliance	41
Management Letter including Client's Response to Recommendations	43



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INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S REPORT

Honorable Mayor and Members of the City Council
City of East Carbon, Utah

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of East Carbon, Utah as of and for the year ended June 30, 2005 which collectively comprises the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of City of East Carbon's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Carbon, Utah as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 24, 2006 on my consideration of City of East Carbon, Utah's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance with the results of that testing and not to provide an opinion on the internal control over financial reporting noncompliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information listed in the foregoing table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Handwritten signature of Lane K. Peterson in cursive, followed by the letters "CPA" in a bold, sans-serif font.

Salt Lake City, Utah
May 24, 2006

CITY OF EAST CARBON
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

This discussion of City of East Carbon's financial performance provides an overview of the City's financial activities for the year ending June 30, 2005. This report is in conjunction with the City's financial statements.

The purpose of the City is to provide general services to its residents which includes general government, public safety, public health, highways, park and recreation, and cemetery.

Financial Highlights

The assets of East Carbon City exceeded its liabilities as of the close of the most recent year by \$3,437,196. Of this amount, \$89,526 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

At the close of the current year, City of East Carbon governmental activities funds reported ending fund balance of \$953,624.

At the end of the current year, unreserved fund deficit for the general fund was (\$275,349).

City of East Carbon's total debt decreased by \$240,795 during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to City of East Carbon's basic financial statements. City of East Carbon's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of City of East Carbon's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of City of East Carbon's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of City of East Carbon is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changes during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned by unused vacation leave).

Both of the government-wide financial statements distinguish functions of City of East Carbon that are principally supported by taxes and intergovernmental

revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of City of East Carbon include general government, public safety, public health, highways, parks and recreating, and cemetery. The business-type activity of City of East Carbon is the enterprise fund, containing water, sewer, and garbage services.

Fund Financial Statements

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. City of East Carbon, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of City of East Carbon can be divided into three categories: governmental funds, enterprise funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditure, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

City of East Carbon maintains three major governmental funds, the general fund, which is always a major fund, and the special revenue fund and debt service fund.

City of East Carbon maintains one nonmajor fund, the capital projects fund.

Proprietary Funds

City of East Carbon maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. City of East Carbon uses an enterprise fund to account for its water, sewer, and garbage operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund is considered a major fund of City of East Carbon.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use full-accrual accounting but are not included in the government-wide statements because the assets in these funds are not available to finance the City's own programs.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Required Supplementary Information

City of East Carbon adopts an annual appropriated budget for all its governmental funds. A budgetary comparison statement has been provided for the City's General Fund and major special revenue funds to demonstrate legal compliance with the adopted budget.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of City of East Carbon, assets exceeded liabilities by \$3,437,196 at the close of the most recent fiscal year.

The largest portion of City of East Carbon's net assets (46%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. City of East Carbon uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although City of East Carbon's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Net Assets						
Current and other assets	\$1,253,962	952,952	1,437,841	1,576,832	2,691,803	2,529,784
Capital Asset	<u>2,047,561</u>	<u>1,902,861</u>	<u>7,376,330</u>	<u>7,466,912</u>	<u>9,423,891</u>	<u>9,369,773</u>
Total assets	3,301,523	2,855,813	8,814,171	9,043,744	12,115,694	11,899,557
Current and other liabilities	291,362	306,589	232,203	229,609	523,565	536,198
Long-term liabilities	<u>2,056,537</u>	<u>2,136,343</u>	<u>6,098,396</u>	<u>6,234,385</u>	<u>8,154,933</u>	<u>8,370,728</u>
Total liabilities	2,347,899	2,442,932	6,330,599	6,463,994	8,678,498	8,906,926
Net assets:						
Invested in capital assets	296,024	46,518	1,277,934	1,232,527	1,573,958	1,279,045
Net of related debt						
Restricted	932,949	618,231	840,763	812,796	1,773,712	1,431,027
Unrestricted	<u>(275,349)</u>	<u>(251,868)</u>	<u>364,875</u>	<u>534,427</u>	<u>89,526</u>	<u>282,559</u>
Total Net Assets	<u>\$ 953,624</u>	<u>412,881</u>	<u>2,483,572</u>	<u>2,579,750</u>	<u>3,437,196</u>	<u>2,992,631</u>

A portion of City of East Carbon's net assets (52%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$89,526 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

Governmental activities increased City of East Carbon's net assets by \$540,743. Key elements of this increase follow:

For the most part, the increase resulted from additional revenue sources and a grant to acquire a fire engine for the City.

Business-Type Activities

Business-type activities decreased City of East Carbon's net assets by \$(96,178). Key elements of this decrease follow:

The decrease in the business-type activities is attributed to the depreciation on assets and revenues being less than adopted budget amounts.

Financial Analysis of the Government's Funds

As noted earlier, City of East Carbon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of City of East Carbon's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing City of East Carbon's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

At the end of the year, City of East Carbon's governmental fund reported combined ending fund balances of \$953,624.

The general fund is the chief operating fund of City of East Carbon. At the end of the current year, the general unrestricted fund balance is a deficit of (\$275,349), while total fund balance is \$66,994. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Proprietary Funds

City of East Carbon proprietary fund provides the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the enterprise fund at the end of the year was \$364,875. Other factors concerning the finances of this fund have already been addressed in the discussion of City of East Carbon's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final expenditures of \$250,682 can be briefly summarized as follows:

\$251,433 in expenditures not budgeted for the purchase of a police vehicle and fire engine.

Capital Assets

City of East Carbon's investment in capital assets for its governmental activities as of June 30, 2005, was \$2,047,561 (net of accumulated depreciation). This investment in capital assets includes land, buildings, automobiles and trucks, office furniture and equipment, and infrastructure, which includes roads, highways, and bridges.

Capital assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Water rights	\$		431,234	431,234	431,234	431,234
Land	95,815	95,815	7,976	7,976	103,791	103,791
Infrastructure	1,422,798	1,491,922			1,422,798	1,491,922
Buildings	236,293	249,970	1,376	3,666	237,668	253,636
Water and sewer system			6,927,139	7,011,534	6,927,139	7,011,534
Machinery and equipment			8,605	12,502	8,605	12,502
Office furniture and equipment	24,237	33,647			24,237	33,647
Vehicles	268,418	31,507			268,418	31,507
Total	<u>\$2,047,561</u>	<u>1,902,861</u>	<u>7,376,330</u>	<u>7,466,912</u>	<u>9,423,890</u>	<u>9,369,773</u>

Additional information on City of East Carbon's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current year, City of East Carbon had total long-term debt outstanding of \$8,129,933. The debt represents loans secured by water and sewer improvements, tippage revenues and police vehicles.

State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total fair market value of taxable property in the City. The current debt limitation for City of East Carbon is approximately \$1,681,673. City of East Carbon has general obligation debt of \$42,537.

Additional information on City of East Carbon's long-term debt can be found in the notes of the financial statements.

Request for Information

This financial report is designed to provide a general overview of City of East Carbon's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of East Carbon Recorder, P.O. Box 70, East Carbon, Utah, 84520.

CITY OF EAST CARBON

Statement of Net Assets

June 30, 2005

	Primary Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 6,574	439,598	446,172
Accounts receivable (net)	175,514	40,229	215,743
Property tax receivable	326,408		326,408
Sales and use tax receivable	67,623		67,623
Other taxes receivable	34,646		34,646
Miscellaneous receivable	1,349		1,349
Prepaid expenses	4,620	1,197	5,817
Internal balances	(116,054)	116,054	
Cash restricted	753,282	840,763	1,594,045
Capital Assets:			
Water rights		431,234	431,234
Land	95,815	7,976	103,791
Infrastructure	2,073,714		2,073,714
Buildings	410,337	29,027	439,364
Water and sewer system		10,625,871	10,625,871
Machinery and equipment		103,078	103,078
Office furniture and equipment	288,364		288,364
Vehicles	589,102		589,102
Accumulated depreciation	(1,409,771)	(3,820,856)	(5,230,627)
Total Assets	<u>\$3,301,523</u>	<u>8,814,171</u>	<u>12,115,694</u>
LIABILITIES			
Accounts Payable	\$ 20,986		20,986
Customer deposits		31,691	31,691
Bond interest payable	13,437	190,161	203,598
Deferred property tax revenue	239,666		239,666
Accrued compensated absences	17,273	10,351	27,624
Noncurrent liabilities			
Construction bond	25,000		25,000
Capital leases - Due within one year	12,211		12,211
Bonds payable - Due within one year	410,000	144,653	554,653
Capital leases - Due in more than one year	30,326		30,326
Bonds payable - Due in more than one year	1,579,000	5,953,743	7,532,743
Total Liabilities	<u>2,347,899</u>	<u>6,330,599</u>	<u>8,678,498</u>
NET ASSETS			
Invested in capital assets, net of related debt	296,024	1,277,934	1,573,958
Restricted for			
Class "C" roads	46,319		46,319
Capital projects	201,510		201,510
Debt reserves	685,120	840,763	1,525,883
Unrestricted	(275,349)	364,875	89,526
Total Net Assets	<u>\$ 953,624</u>	<u>2,483,572</u>	<u>3,437,196</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST CARBON

Statement of Activities

For the Year Ended June 30, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Change in Net Assets	
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Primary government	Expenses				Total
Governmental Activities:					
General government	\$ 241,191	61,654		(179,537)	(179,537)
Public safety	309,424	70,367		(2,105)	(2,105)
Highway and public improvements	173,942	955	235,997	(114,582)	(114,582)
Parks and Recreation	30,949	59,360		(30,949)	(30,949)
Community and economic development	475			(475)	(475)
Interest on long term debt	90,568			(90,568)	(90,568)
Total governmental activities	846,549	132,021	235,997	(418,216)	(418,216)
Business-type activities:					
Water	581,115	188,686	150,000		(226,759)
Sewer	224,862	39,970	18,000		(160,447)
Garbage	51,034	60,830			15,312
Total business-type activities	857,011	289,486	168,000	(371,894)	(371,894)
Total primary government	\$1,703,560	421,507	403,997	(418,216)	(790,110)
General revenues:					
Property taxes				283,328	283,328
Sales and franchise taxes				135,938	135,938
Tippage fees				775,270	775,270
Unrestricted investment earnings				24,121	12,235
Miscellaneous				3,783	36,356
Transfers in(out)				(263,481)	3,784
Total general revenues and transfers				958,959	1,234,676
Change in Net Assets				540,743	444,565
Beginning Net Assets				412,881	2,992,631
Ending Net Assets				\$ 953,624	2,483,572
					3,437,196

The accompanying notes are an integral part of these financial statements.

CITY OF EAST CARBON

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total Fund Balances for Governmental Funds

\$ 951,037

Total net assets reported for governmental activities in the
statement of net assets is different because:

Capital assets used in governmental funds are not financial
resources and therefore are not reported in the funds.
Those consist of the following:

Land	\$ 95,815	
Infrastructure	2,073,714	
Buildings	410,337	
Office furniture and equipment	288,364	
Vehicles	589,102	
Accumulated depreciation	(1,409,771)	
		2,047,561

Long term liabilities, include bonds payable are not due
in the current period and therefore are not reported in
the funds. Those consist of the following:

Accrued bond interest payable	\$ (13,437)	
Capital leases - due within one year	(12,211)	
Bonds payable - due within one year	(410,000)	
Capital leases - due in more than one year	(30,326)	
Bonds payable - due in more than one year	(1,579,000)	
		(2,044,974)

Total Net Assets of Governmental Activities

\$ 953,624

The accompanying notes are an integral part of these financial statements.

CITY OF EAST CARBON

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to Statement of Activities

June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$304,176

Amounts reported for governmental activities in the statement
of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts were as follows:

Capital outlay	\$ 273,938	
Depreciation	<u>(129,238)</u>	144,700

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability (30,510)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts were as follows:

Bond and note principal payments	\$126,000	
Capital lease principal payments	<u>9,316</u>	135,316

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of the following:

Accrued interest	<u>(12,939)</u>
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Change in net assets of governmental activities	<u>\$540,743</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF EAST CARBON

Balance Sheet
Governmental Funds

June 30, 2005

	General	Special Revenue	Debt Service	Capital Project	Total Governmental Funds
<u>ASSETS</u>					
Cash	\$ 6,574				6,574
Property tax receivable	326,408				326,408
Tippage fees receivable		175,514			175,514
Sales and use tax receivable	67,623				67,623
Other taxes receivable	34,646				34,646
Employee receivables	1,349				1,349
Due from other funds	172,357				172,357
Prepaid expenses	4,620				4,620
Cash - restricted	72,669	4,999	676,964	201,510	956,142
	<u>\$586,246</u>	<u>180,513</u>	<u>676,964</u>	<u>201,510</u>	<u>1,745,233</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Cash overdraft	\$202,860				202,860
Accounts payable	20,986				20,986
Due to other funds	116,054	172,357			288,411
Compensated absences	17,273				17,273
Construction bond	25,000				25,000
Deferred revenue	239,666				239,666
Total Liabilities	<u>621,839</u>	<u>172,357</u>			<u>794,196</u>
Fund balances:					
Reserved for:					
Class C Roads	46,319				46,319
Debt service		8,156	676,964		685,120
Capital project funds				201,510	201,510
Unreserved	18,088				18,088
Total fund balances	<u>64,407</u>	<u>8,156</u>	<u>676,964</u>	<u>201,510</u>	<u>951,037</u>
Total liabilities and fund balances	<u>\$686,246</u>	<u>180,513</u>	<u>676,964</u>	<u>201,510</u>	<u>1,745,233</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST CARBON

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For Year Ended June 30, 2005

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Revenues:					
Taxes, penalties and interest	\$419,266				419,266
Intergovernmental revenue	358,312				358,312
Licenses and permits	7,981				7,981
Interest revenue	6,477	3,700	4,140	9,805	24,122
Fines and forfeitures	23,858				23,858
Rents	23,515				23,515
Charge for services	10,964				10,964
Tippage fees		775,270			775,270
Miscellaneous	7,487				7,487
Total revenues	857,860	778,970	4,140	9,805	1,650,775
Expenditures:					
General government	225,299			2,280	227,579
Public safety	286,342				286,342
Highways and public improvements	98,860				98,860
Parks and public property	25,093				25,093
Community and economic development	475				475
Capital outlay	261,233				261,233
Debt service					
Principal retirement	9,316		126,000		135,316
Interest and fiscal charges	664		78,066		78,730
Total expenditures	907,282		204,066	2,280	1,113,628
Excess of revenues over (under) expenditures	(49,422)	778,970	(199,926)	7,525	537,147
Other financing sources (uses):					
Capital lease financing	30,510				30,510
Operating transfers in	20,000		494,609		514,609
Operating transfers out		(778,090)			(778,090)
Total other financing sources (uses)	50,510	(778,090)	494,609		(232,971)
Excess of revenues and other sources over (under) expenditures and other uses	1,088	880	294,683	7,525	304,176
Fund balances, July 1	63,319	7,276	382,281	193,985	646,861
Fund balances, June 30	\$ 64,407	8,156	676,964	201,510	951,037

The accompanying notes are an integral part of these financial statements.

CITY OF EAST CARBON
Statement of Net Assets
Proprietary Funds

June 30, 2005

<u>Business-type Activities - Enterprise Funds</u>				
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash	\$ 94,852	262,808	81,938	439,598
Receivables --net	34,433	3,230	2,566	40,229
Prepaid expenses	862	335		1,197
Due from other funds	116,054			116,054
Cash - restricted	<u>562,269</u>	<u>278,494</u>		<u>840,763</u>
Total current assets	<u>808,470</u>	<u>544,867</u>	<u>84,504</u>	<u>1,437,841</u>
Noncurrent assets:				
Water rights	431,234			431,234
Property and equipment				
Land	7,976			7,976
Buildings	29,027			29,027
Water and sewer system	8,522,691	2,103,180		10,625,871
Machinery and equipment	92,677	3,525	6,876	103,078
Accumulated depreciation	<u>(3,212,698)</u>	<u>(604,433)</u>	<u>(3,725)</u>	<u>(3,820,856)</u>
Total noncurrent assets	<u>5,870,907</u>	<u>1,502,272</u>	<u>3,151</u>	<u>7,376,330</u>
Total assets	<u>\$6,679,377</u>	<u>2,047,139</u>	<u>87,655</u>	<u>8,814,171</u>
LIABILITIES				
Current liabilities:				
Customer deposits	31,691			31,691
Bond interest payable	131,136	59,025		190,161
Accrued compensated absences	10,351			10,351
Current portion - bonds payable	<u>101,847</u>	<u>42,805</u>		<u>144,652</u>
Total current liabilities	<u>275,025</u>	<u>101,830</u>		<u>376,855</u>
Noncurrent liabilities:				
Revenue bonds payable	<u>4,130,515</u>	<u>1,823,229</u>		<u>5,953,744</u>
Total noncurrent liabilities	<u>4,130,515</u>	<u>1,823,229</u>		<u>5,953,744</u>
Total liabilities	<u>4,405,540</u>	<u>1,925,059</u>		<u>6,330,599</u>
Net Assets:				
Invested in capital assets, Net of related debt	1,638,545	(363,762)	3,151	1,277,934
Restricted	562,269	278,494		840,763
Unrestricted	<u>73,023</u>	<u>207,348</u>	<u>84,504</u>	<u>364,875</u>
Total net assets	<u>2,273,837</u>	<u>122,080</u>	<u>87,655</u>	<u>2,483,572</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST CARBON

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

For The Year Ended June 30, 2005

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
Operating Revenues:				
Sales and charges for services	\$ <u>202,107</u>	<u>46,414</u>	<u>66,346</u>	<u>314,867</u>
Total operating revenue	<u>202,107</u>	<u>46,414</u>	<u>66,346</u>	<u>314,867</u>
Operating Expenses:				
Salaries and wages	51,279	10,608	93	61,980
Benefits	20,244	5,343	4	25,591
Insurance	6,872	2,672		9,544
Professional services		36,000	49,885	85,885
Utilities	4,153	97		4,250
Office supplies	5,327			5,327
Maintenance	20,956	225	339	21,520
Miscellaneous	847			847
Bad debt expense	11,018			11,018
Depreciation	<u>264,282</u>	<u>75,325</u>	<u>712</u>	<u>340,319</u>
Total operating expenses	<u>384,978</u>	<u>130,270</u>	<u>51,033</u>	<u>566,281</u>
Operating income (loss)	<u>(182,871)</u>	<u>(83,856)</u>	<u>15,313</u>	<u>(251,414)</u>
Nonoperating revenues (expenses)				
Connection fees	2,250			2,250
State grant received	150,000	18,000		168,000
Interest revenue	8,896	3,338		12,234
Interest expense and fiscal charges	<u>(196,137)</u>	<u>(94,592)</u>		<u>(290,729)</u>
Total nonoperating revenues (expenses)	<u>(34,991)</u>	<u>(73,254)</u>		<u>(108,245)</u>
Income (loss) before transfers	<u>(217,862)</u>	<u>(157,110)</u>	<u>15,313</u>	<u>(359,659)</u>
Other financing (uses):				
Operating transfer in	133,794	149,687		283,481
Operating transfer out	<u>(10,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>(20,000)</u>
Total other financing sources (uses)	<u>123,794</u>	<u>144,687</u>	<u>(5,000)</u>	<u>263,481</u>
Net income (loss)	<u>(94,068)</u>	<u>(12,423)</u>	<u>10,313</u>	<u>(96,178)</u>
Total net assets - beginning	<u>2,367,905</u>	<u>134,503</u>	<u>77,342</u>	<u>2,579,750</u>
Total net assets - ending	<u>\$2,273,837</u>	<u>122,080</u>	<u>87,655</u>	<u>2,483,572</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST CARBON

Statement of Cash Flows
Proprietary Funds

For The Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Garbage Fund	Total
Cash Flows From Operating Activities:				
Cash receipts from customers	\$202,209	48,216	66,124	316,549
Cash payments to suppliers	(37,247)	(37,200)	(50,224)	(124,671)
Cash payments to employees	(71,523)	(15,951)	(97)	(87,571)
Net cash provided(used) by operating Activities	93,439	(4,935)	15,803	104,307
Cash Flows From Noncapital Financing Activities:				
Transfer to other funds	123,794	144,687	(5,000)	263,481
Net cash provided(used) by noncapital financing activities	123,794	144,687	(5,000)	263,481
Cash Flows From Capital and Related Financing Activities:				
Borrowing under interfund loans	(116,054)			(116,054)
Connection fees	2,250			2,250
State grant proceeds	150,000	18,000		168,000
Acquisition of capital assets	(249,737)			(249,737)
Interest paid on bonds	(199,273)	(96,176)		(295,449)
Principal paid on bonds	(95,788)	(40,201)		(135,989)
Net cash provided(used) by capital and related financing activities	(508,602)	(118,377)		(626,979)
Cash Flows From Investing Activities:				
Investment earnings	8,896	3,338		12,234
Net cash provided(used) by investing Activities	8,896	3,338		12,234
Net increase(decrease) in cash and cash Equivalents	(282,473)	24,713	10,803	(246,957)
Cash and cash equivalents, July 1	939,594	516,589	71,135	1,527,318
Cash and cash equivalents, June 30	\$657,121	541,302	81,938	1,280,361
Cash Flows From Operating Activities				
Operating Income(loss)	\$(182,871)	(83,856)	15,313	(251,414)
Adjustments to reconcile operating income (loss) to net cash provided by(used) in operating activities:				
Depreciation expense	264,282	75,325	712	340,319
Increase(decrease) due to changes in:				
Accounts receivable	102	1,802	(222)	1,682
Prepaid expense	4,612	1,794		6,406
Accounts payable				-
Customer deposits	5,200			5,200
Compensated absences	2,114			2,114
Net cash provided by(used in) operating Activities	\$ 93,439	(4,935)	15,803	104,307

The accompanying notes are an integral part of these financial statements.

CITY OF EAST CARBON

Notes To Financial Statements

For Year Ended June 30, 2005

(1) Organization and Significant Accounting Policies

The financial statements of City of East Carbon have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounting and reporting framework and the more significant accounting policies of the City are described in subsequent subsections of this note.

Reporting Entity - City of East Carbon was incorporated under the laws of the State of Utah on July 27, 1973 and is operates under a mayor-council form of government. The financial statements include those of separately administered organizations that are controlled by or are dependent on the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters. Using these criteria no potential component units are included in the City's financial statements. The City provides the following services: public safety, judicial services, street and public improvements, parks, water, sewer, sanitation, planning and zoning and general administrative services.

Government-Wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(1) Organization and Significant Accounting Policies - continued

applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, tippage fees, interest, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* is the City's fund to account for accumulation of revenues from a private landfill operating in the City's jurisdiction and restricted for the repayment of general long-term debt and water and sewer improvement long-term debt.

The *debt service fund* is the City's fund to account for accumulation of financial resources for the payment of interest and principal on the general long-term debt of the City.

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(1) Organization and Significant Accounting Policies - continued

The City reports the following major proprietary funds:

The water fund is the City's fund to account for the activities of the water operations.

The sewer fund is the City's fund to account for the activities of the sewer operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the general fund by the various enterprise funds for providing administrative services for such funds. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Proprietary fund distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Additionally, the City reports the following nonmajor governmental fund - capital projects fund accounts for the activities of capital improvements and the following nonmajor proprietary fund - garbage fund accounts for the activities of sanitation operations.

Deposits and Investments - The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables - All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles. Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "due to/from other funds" (i.e., current portion of interfund loans) or "advances from/to other funds" (i.e., the noncurrent portion of interfund loans). Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Prepays - Prepays record payments to vendors that benefit future reporting periods and are also reported on the consumption basis.

CITY OF EAST CARBON

Notes to The Financial Statements - Continued

(1) Organization and Significant Accounting Policies - continued

Property Taxes - The property tax revenue of the City is collected and distributed by Carbon County as an agent for the City. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until the date paid.

Utah State legislation requires motor vehicles to be subject to an age based fee that is due each time a vehicle is registered. The age based fee is for passenger type vehicles and ranges from \$10 to \$150 based on the age of the vehicle. The revenues collected in each County from motor vehicle fees is distributed by the County to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The City recognizes motor vehicle fees as property tax revenue when collected by the County.

As of June 30, 2005, property taxes receivable consist of 1) delinquent taxes assessed but uncollected for calendar year 2004 and earlier and 2) taxes assessed as of January 1, 2005, but are not due and payable until November 30, 2005. It is expected that all delinquencies, plus accrued interest and penalties, will be collected within a five-year period during which time, the county treasurer may force the sale of property to collect the delinquent portion. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements. The remaining property taxes receivable are offset by deferred revenue.

Restricted Assets - Restricted assets consist of various cash balances that are restricted as to their use. Certain cash balances are restricted by provisions of the bond resolutions. These include the bond, and emergency repairs accounts in the general and enterprise funds. Customer deposits are also restricted in the enterprise funds. Class C Road revenue not spent is restricted in the general fund to be used for future roadwork. Capital project revenue not spent is restricted in the general fund.

Capital Assets - Capital Assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

CITY OF EAST CARBON

Notes to The Financial Statements - Continued

(1) Organization and Significant Accounting Policies - continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvement are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimates useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	30
Buildings	15-30
Water and sewer system	28-47
Machinery and equipment	5-33
Office furniture and equipment	5-7
Vehicles	5

Contributions - Certain proprietary fund types receive contribution for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

Compensated Absences - The City compensates employees for unused vacation and compensation time. Sick pay is not paid to employees upon termination. Accumulated unpaid amounts are accrued when incurred in the government wide funds. The proprietary fund includes accrued vacation pay in their financial statements.

Long-term Obligations - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF EAST CARBON

Notes to The Financial Statements - Continued

(1) Organization and Significant Accounting Policies - continued

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance from amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimated and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgetary Data - Budgets are presented on the modified accrual basis of accounting for all governmental funds and on the accrual basis for proprietary funds. All annual appropriations lapse at fiscal year end. The following procedures are used in establishing the budgetary date:

1. During May of each year, the City administrator, authorized under state statute to be appointed budget officer prepares a tentative budget and submits it to the City Council. The operating budget includes proposed expenditures and means of financing them. A final budget for the current year ending June 30 is also included.
2. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget. Notice of the scheduled public hearing is published at least seven days prior to the meeting.
3. If the City does not exceed the certified tax rate, a public hearing is held prior to June 22 and the budget is legally adopted through passage of a resolution. If the City exceeds the certified tax rate, the budget is adopted in August when data is available to set the rates.
4. Control of budgeted expenditures is exercised, under state law, at the department level. The City administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund and reduce department appropriations.
5. A public hearing as required in 2) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increase by resolution, without an additional hearing.
6. Expenditures may not legally exceed budget appropriations at the department level for the General Fund and the fund level for all other funds.

During the budget year, the City modified the budget using the above procedures.

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(2) Cash Deposits and Investments

Deposits and investment of The City are governed by the Utah Money management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the City's exposure to various risks related to its cash management activities.

A. Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of City funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The City's deposits of \$339,779 in the bank are in excess of the insured amount and are not collateralized, nor do state statutes require them to be.

Investments. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk of investments. The entire \$1,058,487 of the City's investments in Wells Fargo Treasury Plus Money Market is uninsured, unregistered, and held by the counterparty's trust department but not in the City's name and are therefore exposed to custodial credit risk.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act.

The City is also authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as a investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(2) Cash Deposits and Investments - continued

losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. Following are the City's investment at June 30, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
PTIF Investments	\$ 641,949	54 days*	not rated
Wells Fargo Treasury Plus MM	<u>1,058,487</u>	6/30/05	A-1
Total	<u>\$1,700,436</u>		

* Weighted-average maturity

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the City's investments are noted in the previous table.

D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy to limit this risk is to adhere to the rules of the Money Management Council and to invest most of its available funds in the PTIF. The Council rules do not limit the amount of investments a government may make in any one issuer except for Rule 2 regarding certain endowments and funds with a long-term perspective, and Rule 17 which limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the government's portfolio at the time of purchase.

During 1996 the City held a bond election for the authorization of bonds to be used for the replacement of the water and sewer distribution system along with replacement of the roads, sidewalks and curbs in the City. The election was approved and the bonds were issued during the year ended June 30, 1996. One of the requirements of the bond election was to establish several trust accounts with an independent trustee for the retirement of the new bonds issued. Following is an analysis of the various trust accounts established with Wells Fargo Bank N.A., as Trustee under the Indenture of Trust dated August 15, 1995.

A revenue fund was established by the trustee for the receipt of the revenues pledged for the retirement of the 1995 series bonds. Pledged revenues include the revenues from the ECDC tippage fees and excess revenues from the water and sewer funds. During year ended June 30, 2005 only ECDC tippage fees were

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(2) Cash Deposits and Investments - continued

received. This fund was established with control to be maintained by the trustee in error. The bond issuer was to retain control of the revenue fund and the error was corrected during the year ended June 30, 2005. Following is an analysis of the current year activity.

Beginning balance	\$ -
Receipt of pledged revenues	542,610
Interest earned on deposits	-
Sweep fees	(-)
Bond retirement transfers	(542,610)
Balance at June 30, 2005	\$ <u>-</u>

A road bond, water bond and sewer bond retirement fund was established by the trustee for the accumulation of funds from the revenue accounts for the purpose of funding the annual debt retirement of the related bonds. An amount equal to one fourth of the annual retirement requirement is to be transferred quarterly on August 1, November 1, February 1, and May 1, beginning November 1, 1996. Following is an analysis of the current year activity.

Road Bond:

Beginning Balance	\$ 379
Interest earned on deposits	5
Sweep fees	-
Debt service payment	-
Balance at June 30, 2005	\$ <u>384</u>

2002 Road Bond:

Beginning Balance	\$190,232
Transfer from revenue account	189,129
Interest earned on deposits	1,591
Sweep Fees	(390)
Debt service payment	(190,225)
Balance at June 30, 2005	\$ <u>190,337</u>

Water Bond:

Beginning Balance	\$132,357
Transfers from revenue account	132,595
Interest earned on deposits	1,115
Sweep fees	(273)
Debt service payment	(132,350)
Balance at June 30, 2005	\$ <u>133,444</u>

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(2) Cash Deposits and Investments - continued

Sewer Bond:

Beginning balance	\$80,628
Transfers from revenue account	80,846
Interest earned on deposits	680
Sweep fees	(166)
Debt service payment	(80,625)

Balance at June 30, 2005 \$81,363

During 1997 a water note and sewer note retirement fund was established by the trustee for the accumulation of funds from the revenue accounts for the purpose of funding the annual debt retirement of the related notes. An amount equal to one fourth of the annual retirement requirement is to be transferred quarterly on August 1, November 1, February 1, and May 1, beginning November 1, 1996. Following is an analysis of the current year activity.

Water Anticipation Note:

Beginning Balance	\$ -
Transfers from revenue account	54,873
Interest earned on deposits	14
Debt service payment	(54,880)
Sweep fees	(4)

Balance at June 30, 2005 \$ 3

Sewer Anticipation Note:

Beginning Balance	\$ -
Transfers from revenue account	54,873
Interest earned on deposits	14
Debt service payment	(54,880)
Sweep fees	(4)

Balance at June 30, 2005 \$ 3

Road bond, water bond and sewer bond reserve funds for each of the individual bonds was established by the trustee. They are to be used for the accumulation of funds from the revenue accounts for the purpose of funding a future reserve for annual debt retirement of the related bonds should revenue be otherwise insufficient. An amount equal to one fourth of the annual reserve requirement is to be transferred quarterly on August 1, November 1, February 1, and May 1, beginning November 1, 1996 and continuing until a specified balance is attained in the reserve account. Following is an analysis of the current year activity.

1995B Sewer Bond Reserve:

Beginning balance	\$93,287
Transfers from revenue account	2,392
Interest earned on deposits	1,268
Sweep fees	(350)

Balance at June 30, 2005 \$96,597

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(2) Cash Deposits and Investments - continued

1995C Water Bond Reserve:	
Beginning balance	\$149,475
Transfers from revenue account	15,332
Interest earned on deposits	2,107
Sweep fees	(578)
Balance at June 30, 2005	<u>\$166,336</u>
1995D Water Bond Reserve:	
Beginning balance	\$40,261
Transfers from revenue account	(385)
Interest earned on deposits	532
Sweep fees	(147)
Balance at June 30, 2005	<u>\$40,261</u>
1995E Sewer Bond Reserve:	
Beginning balance	\$53,815
Transfers from revenue account	1,380
Interest earned on deposits	731
Sweep fees	(201)
Balance at June 30, 2005	<u>\$53,815</u>
1995F Water Bond Reserve:	
Beginning balance	\$53,815
Transfers from revenue account	1,380
Interest earned on deposits	731
Sweep fees	(201)
Balance at June 30, 2005	<u>\$55,725</u>
2002 Road Bond Reserve:	
Beginning Balance	\$191,670
Interest earned on deposits	2,543
Sweep Fees	(710)
Balance at June 30, 2005	<u>\$193,503</u>

A sewer bond emergency repair and replacement reserve fund was established by the trustee for the accumulation of funds from the revenue accounts for the purpose of funding an emergency repair and replacement reserve for the sewer fund. An amount equal to one fourth of the annual reserve requirement is to be transferred quarterly on August 1, November 1, February 1, and May 1, beginning November 1, 1996 and continuing until a specified balance is attained in the reserve account. Following is an analysis of the current year activity.

Beginning balance	\$46,654
Transfers from revenue account	(2,224)
Interest earned on deposits	527
Sweep fees	(150)
Balance at June 30, 2005	<u>\$44,807</u>

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(2) Cash Deposits and Investments - continued

During 1998 the City made a bond resolution for the authorization of bonds to be used for the acquisition of certain properties and improvements vital for the water distribution system. The resolution was approved and the bonds were issued during the year ended June 30, 2000. One of the requirements of the bond resolution was to establish two allocations of cash accounts on the books of the issuer for the retirement of the new bond. At June 30, 2005 the City has allocated \$7,670 of its cash for a Bond Fund for the purpose of funding the annual debt retirement. Additionally, an allocation of \$16,330 for a Reserve Fund for the purpose of funding a future reserve for annual debt retirement of the related bond should revenue not be sufficient.

During 2000 the City made a bond resolution for the authorization of bonds to be used for the construction of improvements vital for the water distribution system. The resolution was approved and the bonds were issued during the year ended June 30, 2001. One of the requirements of the bond resolution is to establish two allocations of cash accounts on the books of the issuer for the retirement of the new bond. At June 30, 2005 the City has allocated \$35,100 of its cash for a Bond Fund for the purpose of funding the annual debt retirement. Additionally, an allocation of \$70,440 for a Reserve Fund for the purpose of funding a future reserve for annual debt retirement of the related bond should revenue not be sufficient.

(3) Water and Sewer Connections and Charges

The City has 653 sewer and 823 water connections at June 30, 2005. Of those connections 653 sewer and 823 water connections are within the boundaries of the City and no sewer or water connections are outside the boundaries of the City. Of the 653 sewer connections 581 are active and 72 are vacant, also of the 823 water connections 640 are active and 183 are vacant. Additionally, at June 30, 2005 the City had no outstanding applications for sewer or water service.

The City charges a connection fee of \$1,500.00 and a reconnect fee of \$50.00 if the reconnection occurs due to non-payment of previous service. Otherwise the reconnection fee is \$25.00. Additionally, a refundable deposit of \$200.00 is required for all new connections since March 26, 1996. Sewer is charged at the rate of \$9.50 per month per connection and water has a base charge of \$15.50 on a base of 6,000 gallons with \$1.25 being charged for every 50,000 gallons used above the base rate. Once service has been established a user may have the water turned off and pays a rate of \$2.00 per month.

(4) Capital Assets

Capital asset activity for the year ended June 30, 2005 is as follows:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/05
Governmental Activities				
Capital assets being depreciated:				
Buildings	\$ 410,337			410,337
Office Furniture	285,639	2,725		288,364

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(4) Capital Assets - continued

Autos & Trucks	317,889	271,213	589,102
Infrastructure	<u>2,073,714</u>		<u>2,073,714</u>
Total	<u>3,087,579</u>	<u>273,938</u>	<u>3,361,517</u>
Less accumulated depreciation for:			
Buildings	160,367	13,677	174,044
Office Furniture	251,992	12,135	264,127
Autos & Trucks	286,383	34,301	320,684
Infrastructure	<u>581,792</u>	<u>69,124</u>	<u>650,916</u>
Total	<u>1,280,534</u>	<u>129,237</u>	<u>1,409,771</u>
Capital assets net	1,807,045	144,701	1,951,746
Land	<u>95,815</u>		<u>95,815</u>
Total capital assets net	<u>\$1,902,860</u>	<u>144,701</u>	<u>2,047,561</u>
Business-type Activities:			
Capital assets being depreciated:			
Buildings	\$ 29,027		29,027
Water and Sewer			
Distribution	10,376,134	249,737	10,625,871
Equipment	<u>103,078</u>		<u>103,078</u>
Total	<u>10,508,239</u>	<u>249,737</u>	<u>10,757,976</u>
Less accumulated depreciation for:			
Buildings	25,361	2,290	27,651
Water and Sewer			
Distribution	3,364,600	334,132	3,698,732
Equipment	<u>90,576</u>	<u>3,897</u>	<u>94,473</u>
Total	<u>3,480,537</u>	<u>340,319</u>	<u>3,820,856</u>
Capital assets net	7,027,702	(90,582)	6,937,120
Land	<u>7,976</u>		<u>7,976</u>
Total capital assets net	<u>\$ 7,035,678</u>	<u>(90,582)</u>	<u>6,945,096</u>

Depreciation expense of governmental activities for 2005 was charged to functions as follows:

General government	\$ 12,512
Public service	35,787
Streets	75,083
Parks and recreation	<u>5,856</u>
Total	<u>\$129,238</u>

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(5) Long-term Liabilities

Governmental activity bonds payable at June 30, 2005 are comprised of the following individual issues:

\$2,026,000 due in annual installments of various amounts through July 1, 2016, interest at 3.5% to Utah Permanent Community Impact Fund Board. Proceeds were used to replace the roads, curbs and sidewalks of the City. Series 1995A Road Bond, refinanced as Series 2002. \$1,709,000

\$738,000 due in annual installments of various amounts through July 1, 2005, interest at 8.85% to 9.10% to First Interstate Bank. Proceeds were used to provide a natural gas distribution line for the City. 280,000

1,989,000

Less amounts due in one year (410,000)

\$1,579,000

Governmental activity capital lease obligations at June 30, 2005 are comprised of the following individual issue:

\$30,510 due in annual installments of \$8,447 through October 19, 2008, interest at 6.05% to Zions First National Bank. Proceeds were used to acquire a new vehicle for the police department for the City. \$ 26,287

\$27,100 due in annual installments of \$5,757 through October 1, 2007, interest at 3.11% to Zions First National Bank. Proceeds were used to acquire a new vehicle for the police department for the City. \$ 16,250

42,537

Less amounts due in one year (12,212)

\$ 30,325

Business-type activity bonds payable at June 30, 2005 are comprised of the following individual issues:

\$79,000 due in semi-annual installments that vary through May 1, 2009, interest at 11.22% to Zions First National Bank. Proceeds retired an earlier bond issue that expanded the water system. \$ 30,042

\$1,042,000 due in annual installments of various amounts through July 1, 2015, interest at 5.5% to Utah Water Quality Board. Proceeds were used to expand the sewer system. Series 1995B Sewer Bond. 948,000

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(5) Long-term Liabilities - continued

\$1,750,000 due in annual installments of various amounts through July 1, 2016, interest at 5.0% to Utah Board of Water Resources. Proceeds were used to expand the water system. Series 1995C Water Bond.	1,678,000
\$514,286 due in annual installments of various amounts through July 1, 2015, interest at 3.5% to Community Impact Board. Proceeds were used to expand the water system. Series 1995D Water Bond.	514,286
\$1,015,500 due in quarterly installments of \$13,720 through August 1, 2036, interest at 4.5% to United States of America. Proceeds were used to expand the sewer system. Series 1995E Sewer Bond.	918,034
\$1,015,500 due in quarterly installments of \$13,720 through August 1, 2036, interest at 4.5% to United States of America. Proceeds were used to expand the water system. Series 1995F Water Bond.	918,034
\$235,000 due in annual installments of \$9,000 increasing every three years by \$1,000 to \$15,000 until January 1, 2029, interest at 3% to the United States of America. Proceeds were used to acquire water system improvements. Series 1998 Water Bond.	178,000
\$845,000 due in annual installments of various amounts through January 1, 2016, interest at 5% to the Utah Board of Water Resources. Proceeds were used to acquire water system improvements. Series 2000 Water Bond.	741,000
\$180,000 due in annual installments of various amounts through March 1, 2024, interest at 2.5% to Utah Permanent Community Impact Fund Board. Proceeds were used to complete a new water storage tank for the City. Series 2003 Water Bond.	173,000
	6,098,396
Less amounts due in one year	(144,653)
	<u>\$5,953,743</u>

Road, water and sewer revenue bonds constitute special obligations of the City solely secured by a lien on the pledge of the net revenues of the water and sewer system and the solid land fill agreement dated July 9, 1993 for the payment of tippage fees. The revenue bonds are collateralized by the revenue of the water and sewer system, the tippage fees and the various special funds established by the bond ordinances.

The ordinances provide that the revenue of the systems are to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. The 1995 and 2002 series bond indentures

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(5) Long-term Liabilities - continued

contain significant requirements for annual debt service and flow of funds through various restricted accounts. The 1998 and 2000 series bond contains requirement for annual debt service and flow of funds through allocations on the books of the City.

Specifically the 1995 and 2002 road, water and sewer bonds require the use of revenue, bond, reserve, construction, excess revenue, repair and replacement, and arbitrage rebate accounts. Any remaining revenues may then be used for any lawful purpose. The City is in compliance with all significant requirements of the various bond covenants.

Changes in long-term liabilities for the year ended June 30, 2005 were as follows:

	Balance 6/30/04	Additions	Reductions	Balance 6/30/05
Government activities:				
Revenue bonds	\$2,115,000		126,000	1,989,000
Capital lease obligations	21,343	30,510	9,316	42,537
Total government activities	<u>\$2,136,343</u>	<u>30,510</u>	<u>135,316</u>	<u>2,031,537</u>
Business-type activities:				
Revenue bonds	<u>\$6,234,385</u>	<u>-</u>	<u>135,989</u>	<u>6,098,396</u>

The annual requirements to amortize capital lease obligations outstanding as of June 30, 2005, including interest are as follows:

Fiscal Year Ending June 30,	Government Activities		
	Payment	Interest	Principal
2006	\$14,204	1,992	12,212
2007	14,203	1,401	12,802
2008	14,203	779	13,424
2009	4,223	124	4,099
	<u>\$46,833</u>	<u>4,296</u>	<u>42,537</u>

The annual requirements to amortize revenue bonds outstanding as of June 30, 2005, including interest are as follows:

Fiscal Year Ending June 30,	Government Activities			Business-type Activities		
	Payment	Interest	Principal	Payment	Interest	Principal
2006	\$ 482,555	72,555	410,000	430,185	285,533	144,652
2007	190,265	55,265	135,000	430,963	278,089	152,874
2008	189,540	50,540	139,000	544,433	269,952	274,481
2009	189,675	45,675	144,000	646,115	256,538	389,577
2010	189,635	40,635	149,000	638,330	237,308	401,022
2011-2015	949,995	120,995	829,000	3,255,905	874,694	2,381,211
2016-2020	189,405	6,405	183,000	1,421,010	369,354	1,051,656
2021-2025				595,625	255,628	339,997

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(5) Long-term Liabilities - continued

2026-2030	548,800	178,581	370,219
2031-2035	548,800	85,749	463,051
2036-2037	133,979	4,323	129,656
	<u>\$2,381,070</u>	<u>392,070</u>	<u>1,989,000</u>
	<u>9,194,145</u>	<u>3,095,749</u>	<u>6,098,396</u>

(6) Leased Assets

The City has entered into a solid land fill agreement on July 9, 1993, wherein the City and its neighbor, Sunnyside City are entitled to dispose of the commercial and residential waste by commercial contractor at the land fill at no charge. The City will also receive tippage fees for the next forty years for solid waste delivered to the landfill from entities outside the boundaries of the two municipalities. Years 1-10 amount to \$.50 per ton, years 11-20 amount to \$1.00 per ton, years 21-30 amount to \$1.50 per ton and years 31-40 amount to \$2.00 per ton. Tippage fees for June 30, 2005 were \$775,270 with \$599,756 being collected and \$175,514 due at June 30, 2005.

On December 20, 1989 the City entered into three agreements with Sunnyside Cogeneration Associates for the lease of various assets. These assets are surplus water works capacity, surplus water use and ash disposal site. The original leases are for 30 years each with four additional five year options to renew. Total lease income for June 30, 2005 was \$18,598.

Remaining lease payments for subsequent years are as follows:

Fiscal Year Ending June 30,	
2006	\$ 16,098
2007	16,098
2008	16,098
2009	19,610
2010	19,610
2011-2018	178,056
	<u>\$265,570</u>

(7) Defined Benefit Pension Plan

Plan Description: The City of East Carbon, Utah contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) and Public Safety Retirement System (Public Safety System) for employers with Social Security coverage, both of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustment, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(7) Defined Benefit Pension Plan - continued

Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School contributory Retirement System and State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement System, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy: East Carbon City is required to contribute a percent of covered salary to the respective systems, 11.09% to the Noncontributory System, 19.08% to the Public Safety System. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

East Carbon City contributions to the Local Governmental Noncontributory Retirement System for June 30, 2005, 2004 and 2003 were \$18,842.94, \$16,251.36, and \$13,866.56 respectively and for the Public Safety Retirement System the contributions for June 30, 2005, 2004, and 2003 were \$23,087.62, \$13,755.37, and \$14,827.81 respectively. The contributions were equal to the required contributions for each year.

(8) Reserved and Restricted Fund Equity

Reservations and restrictions of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses. The purpose for each is indicated by the account title on the face of the balance sheet.

(9) Insurance Coverage

The following insurance policies were in force during the year ended June 30, 2005.

Insurer:

Utah Local Governments Trust Policy #GP06300788 Expires 7/1/05
Provides all risk property insurance with the following limits:
Accidental Electric/Mech Failure \$3,278,865
Buildings 3,061,505
Contents 217,360
Contractors Equipment 65,693

Insurer:

Utah Local Governments Trust Policy #TGL-084 Continuous from 6/15/86
Provides general liability and auto liability insurance with the following limits:
General aggregate \$2,000,000
Combined Single limit on auto \$2,000,000

Insurer:

Unigard Insurance Company Policy #BA615991 Expires 7/1/05
Provides auto physical damage with the following limits:
Deductible \$100/250
Comprehensive Yes
Collision Yes

CITY OF EAST CARBON

Notes To Financial Statements - Continued

(10) Contingent Liabilities

Litigation

The City is not aware of any contingent liabilities that would materially effect the financial statement at June 30, 2005.

Grant Audit

The City receives State Grants for specific purposes that are subject to review and audit by State agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowances, if any, will not be significant.

REQUIRED SUPPLEMENTARY INFORMATION

Lane K Peterson
Certified Public Accountant

CITY OF EAST CARBON

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - General Fund

For the Year Ended June 30, 2005

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes, penalties and interest	\$417,500	417,500	419,266	1,766
Intergovernmental revenue	143,300	143,300	358,312	215,012
Licenses and permits	7,900	7,900	7,981	81
Interest revenue	20,000	20,000	6,477	(13,523)
Fines and forfeitures	15,000	15,000	23,858	8,858
Rents	28,500	28,500	23,515	(4,985)
Charge for services	3,900	3,900	10,964	7,064
Miscellaneous	500	500	7,487	6,987
Total revenues	636,600	636,600	857,860	221,260
Expenditures:				
General government	217,572	225,781	225,299	482
Public Safety	278,225	286,402	286,342	60
Highways and public				
Improvements	134,316	98,950	98,860	90
Parks and public property	25,487	25,187	25,093	94
Community and economic				
Development	1,000	500	475	25
Capital outlay		9,800	261,233	(251,433)
Debt service				
Principal retirement		9,316	9,316	
Interest and fiscal charges		664	664	-
Total expenditures	656,600	656,600	907,282	(250,682)
Excess of revenues over (under) expenditures	(20,000)	(20,000)	(49,422)	(29,422)
Other financing sources (uses):				
Capital lease financing			30,510	30,510
Operating transfer in	20,000	20,000	20,000	-
Total other sources (uses)	20,000	20,000	50,510	30,510
Excess revenues and other sources over (under) expenditures and other uses	-	-	1,088	1,088
Beginning fund balance	63,319	63,319	63,319	-
Ending fund balance	\$ 63,319	63,319	64,407	1,088

CITY OF EAST CARBON

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Special Revenue Fund

For Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Tippage fees	\$774,000	774,000	775,270	1,270
Interest revenue	<u>3,000</u>	<u>3,000</u>	<u>3,700</u>	<u>700</u>
Total revenues	<u>777,000</u>	<u>777,000</u>	<u>778,970</u>	<u>1,970</u>
Expenditures:				
General government	_____	_____	_____	_____
Total expenditures	_____	_____	_____	_____
Excess of Revenues over (under) expenditures	<u>777,000</u>	<u>777,000</u>	<u>778,970</u>	<u>1,970</u>
Other financing sources (uses):				
Operating transfer out	(777,000)	(777,000)	(778,090)	(1,090)
Total other sources (uses)	<u>(777,000)</u>	<u>(777,000)</u>	<u>(778,090)</u>	<u>(1,090)</u>
Excess revenues and other sources over (under) expenditures and other uses	-	-	880	880
Beginning fund balance	<u>7,276</u>	<u>7,276</u>	<u>7,276</u>	<u>-</u>
Ending fund balance	<u>\$ 7,276</u>	<u>7,276</u>	<u>8,156</u>	<u>880</u>



Lane K Peterson

Certified Public Accountant

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of East Carbon, Utah

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of East Carbon, Utah as of and for the year ended June 30, 2005 which collectively comprises the City's basic financial statements and have issued my report thereon dated May 24, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of East Carbon, Utah's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered City of East Carbon, Utah's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Honorable Mayor and City Council
City of East Carbon, Utah
Report on Compliance and Internal Control GAS
Page 2

This report is intended solely for the information and use of management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Salt Lake City, Utah
May 24, 2006



Lane K Peterson

Certified Public Accountant

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INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S REPORT
ON COMPLIANCE WITH STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
City of East Carbon, Utah

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of East Carbon, Utah as of and for the year ended June 30, 2005 which collectively comprises the City's basic financial statements and have issued my report thereon dated May 24, 2006. As part of my audit, I have audited the City of East Carbon, Utah's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

B & C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

My audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Cash Management
Purchasing Requirements	Budgetary Compliance
Other General Issues	Liquor Law Enforcement
B & C Road Funds	Truth in Taxation & Property Tax
Uniform Building Code Standards	Limitations

The management of the City of East Carbon is responsible for the City's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

Honorable Mayor and City Council
City of East Carbon, Utah
Report on Compliance with State Legal Compliance
Page 2

The results of my audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. I considered these instances of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

In my opinion, the City of East Carbon, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Handwritten signature of Lane K Peterson in cursive, followed by the letters "CPA".

Salt Lake City, Utah
May 24, 2006



Lane K Peterson

Certified Public Accountant

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Salt Lake City, Utah 84171-0448
(801) 943-3737
Fax (801) 942-5820

May 24, 2006

Honorable Mayor and City Council
City of East Carbon, Utah

RE: Management Letter - Audit of financial statements for the fiscal year
ended - June 30, 2005

I have completed the audit of the financial statements of City of East Carbon, Utah for the fiscal year ended June 30, 2005. The following comments are to be taken as management recommendations and it is hoped that open communication will be established to assist the administration of the City to succeed in their efforts to see the City progress while protecting the assets they have been elected to protect.

This management letter is a requirement of the Utah State Code and Regulations and an appropriate response by the City must accompany its transmittal to the Utah State Auditor.

Over Expenditure of Budgeted Amounts

It was found that the City has violated Utah Codes 10-5-115, 10-6-123, 11-35-122 and 17-36-21. Officers and employees of the City may not incur expenditures of encumbrances in excess of the total appropriation for any department or fund.

I recommend that the City reopen the budget towards the close of the fiscal year and amend the budget to ensure that over expenditure of budgeted amounts does not occur by department.

Management response:

The City found the excess results from the purchase of a police vehicle and a grant that was given for the purchase of a new fire engine. We will more closely monitor major capital additions to ensure that the budget is amended to allow for such acquisitions.

Public Treasurer Bond Shortage

It was found that the City has violated Utah Code 51-7-15 and Rule 4 of the Utah Money Management Council. A fidelity bond in an amount calculated by the above Code and Rule is required to be in force during the year. The bond should have been for at least \$104,103 but was acquired in the amount of \$96,000.

I recommend that the City acquire the necessary fidelity bond based on the required calculations.

Honorable Mayor and City Council
City of East Carbon, Utah
Management Letter
Page 2

Management response:

The City will review the required calculations and make the necessary adjustments in the fidelity bond in force.

Shortage in Fund Balance

It was found that the City has violated Utah Code 10-6-116(4). The City is required to maintain as a minimum fund balance 5% of the total revenues of the general fund. During the current year the general fund is short \$24,805 in meeting the 5% minimum fund balance.

I recommend that the City review the fund balance of the general fund at year end to determine if there are other resources that can be utilized to ensure that the 5% fund balance is maintained or be prepared to hold expenditures until the next budget year in order to maintain the 5% fund balance required by State law.

Management response:

The City will review potential other resources to fund capital activities or monitor activity more carefully to ensure that the 5% minimum fund is maintained in the general fund.

While the proceeding recommendations may appear to criticize the procedures and policies of the City, I hope that these are viewed areas requiring additional attention to safeguard assets of the City. It should be recognized that in improving internal control, the costs of improvement should not exceed the benefit expected to be achieved, while ensuring that the City remains in compliance with applicable laws and regulations.

The cooperation of the City staff as well as the opportunity to be of service to the City was greatly appreciated in completing the audit. I would be happy to discuss any of the above mentioned items with you and provide any assistance required in achieving your objectives. I look forward to improvement for the next audit cycle.

Sincerely,



Lane K Peterson, CPA

LKP/rbp